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NATIONAL TEA CO.

ANNUAL REPORT TO STOCKHOLDERS 1946

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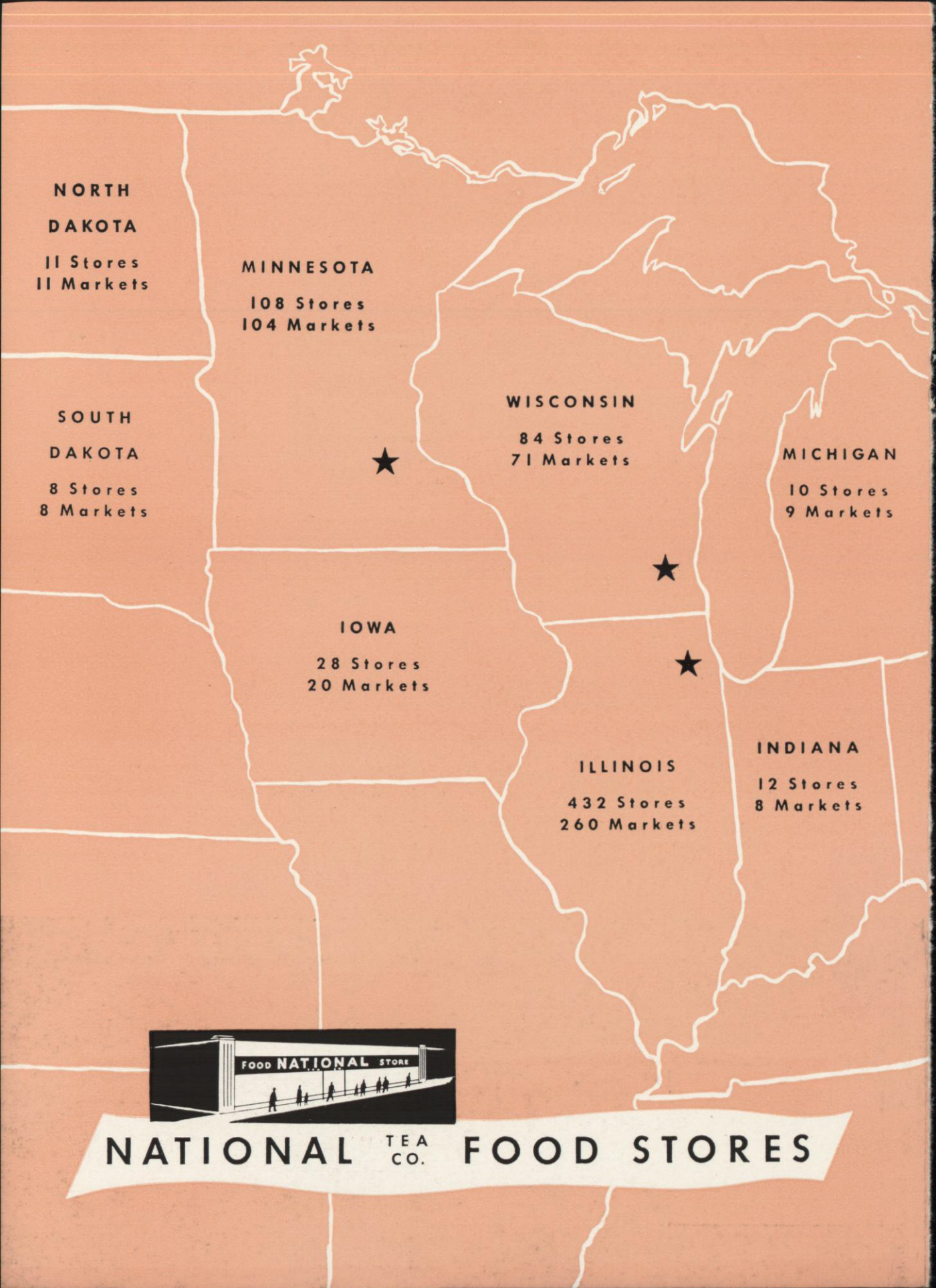

NORTH
DAKOTA
11 Stores
11 Markets
MINNESOTA
108 Stores
104 Markets
SOUTH
DAKOTA
8 Stores
8 Markets
WISCONSIN
84 Stores
71 Markets
MICHIGAN
10 Stores
9 Markets
IOWA
28 Stores
20 Markets
ILLINOIS
432 Stores
260 Markets
INDIANA
12 Stores
8 Markets
FOOD NATIONAL STORE
NATIONAL TEA CO. FOOD STORES

ANNUAL REPORT

TO THE SHAREHOLDERS OF

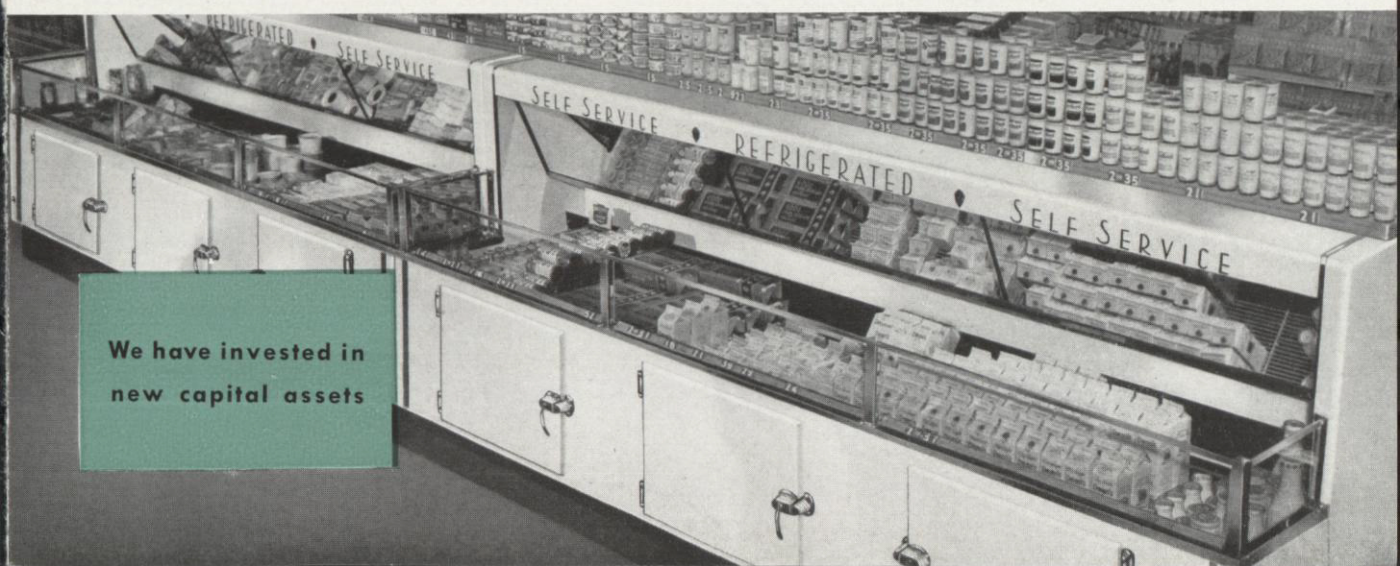
NATIONAL TEA CO.:

The greatest net profits in its history highlights this report on the operation of our Company for the fiscal year 1946. Financial statements, certified by independent accountants show in brief form our progress during the past year.

PROFITS . . .	1946	1945
Profit before taxes	$4,761,473	$1,838,058
Federal income and excess profit taxes	1,830,000	1,044,000
	2,931,473	794,058
Federal income tax credit (resulting from unused excess profit tax credit in prior years)	....	119,000
Net, after taxes	$2,931,473	$ 913,058
Equivalent per common share after preferred dividends	$4.51	$1.33

SALES . . .	1946	1945	Increase
Gross Sales	$157,641,672	$106,868,995	$50,772,677

Sales increased 47% over our previous all-time record of 1945. This, together with our substantially increased tonnage, is indicative of gained patronage for our stores.



DIVIDENDS . . .

During the year 1946, in addition to paying the regular dividends on the Company's outstanding 4¼% preferred shares, common dividends were paid amounting to $535,190, which is equivalent to 85c per common share outstanding, and we accrued $157,850 as an extra dividend of 25c per common share, payable January 2, 1947.

MERCHANDISE INVENTORIES . . .

Our inventories have increased from $9,521,040 in 1945 to $15,948,588 on December 31, 1946, necessitated for a large part by increased volume.

STORES . . .

	1946	1945
Stores with meat markets	491	452
Conventional grocery stores	202	297
Total stores on December 31	693	749

The policy of eliminating lower volume units and concentrating our efforts on larger self-service stores with meat departments continues. As part of our modernization program, we have maintained our stores, plant and equipment in good condition and have added a net of $1,157,821 in new capital assets consisting mostly of store and market fixtures and delivery equipment, and in addition have expended $895,347 on a new warehouse under construction at Hopkins, Minnesota, to serve our Minneapolis Branch.

PACKING PLANTS AND FOOD PROCESSING . . .

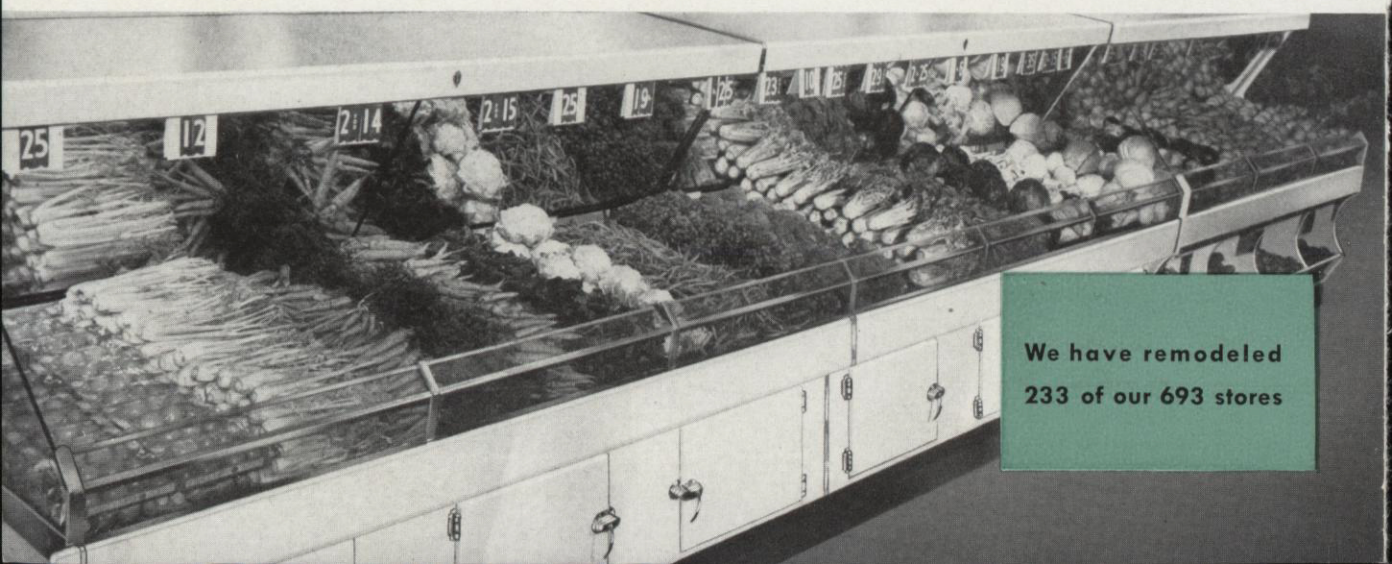
Our three packing plants helped provide our markets with meat during the chaotic conditions which have existed in the meat industry, and while these operations resulted in a profit they have necessitated a greater investment in inventories in relation to sales than is normally required in our retail operations.

FINANCIAL . . .

We have fulfilled the requirements of our serial note agreement by retiring $50,000 principal and have complied with the sinking fund provisions of our preferred stock issue by acquiring at par and retiring 2,200 shares.

REAL ESTATE . . .

During the year 1946 we sold 24 retail store properties, from which we realized a profit of $149,600, which has been reflected in our profits for the year. As of December 31, 1946 we still owned 90 store properties, and are continuing our policy of the sale of Company owned real estate without submitting to long-term leases, but assuring ourselves through options of our continued future tenancy, if we so desire.



PROPOSED NEW WAREHOUSES . . .

We have purchased land and begun construction on the Company's new Minneapolis Branch warehouse, office, bakery and meat commissary in Hopkins, a suburb of Minneapolis, Minnesota, which we should occupy early in 1947.

We have temporarily delayed our warehouse relocation and expansion plans in the Chicago and Milwaukee areas, but intend to proceed in the near future.

MANAGEMENT AND ORGANIZATION . . .

Mr. Harley V. McNamara, Executive Vice President and General Manager, should be credited with the successful operating results of the past year. His aggressiveness has led the executive organization he has formed to new records of both profits and sales for the Company.

After discussion with my associates on the Board of Directors, it is felt only fitting and proper that Mr. McNamara be made President of the Company, with full operating authority and responsibility, and it has been suggested that I assume the position, which will be formed, of Chairman of the Company, with duties and responsibilities which include the corporate, legal, financial and fiscal affairs of the Company. It will be so recommended to the Board of Directors at the Annual Meeting on March 21st.

APPRECIATION . . .

The National Tea Co. feels privileged to have had the opportunity to serve its customers, and wishes to thank them for their confidence and patronage during the past year.

To our 7,000 employees in all positions, the management wishes me to express our appreciation of their efforts during the past year, which have made it possible to achieve new records in sales and profits for the Company.

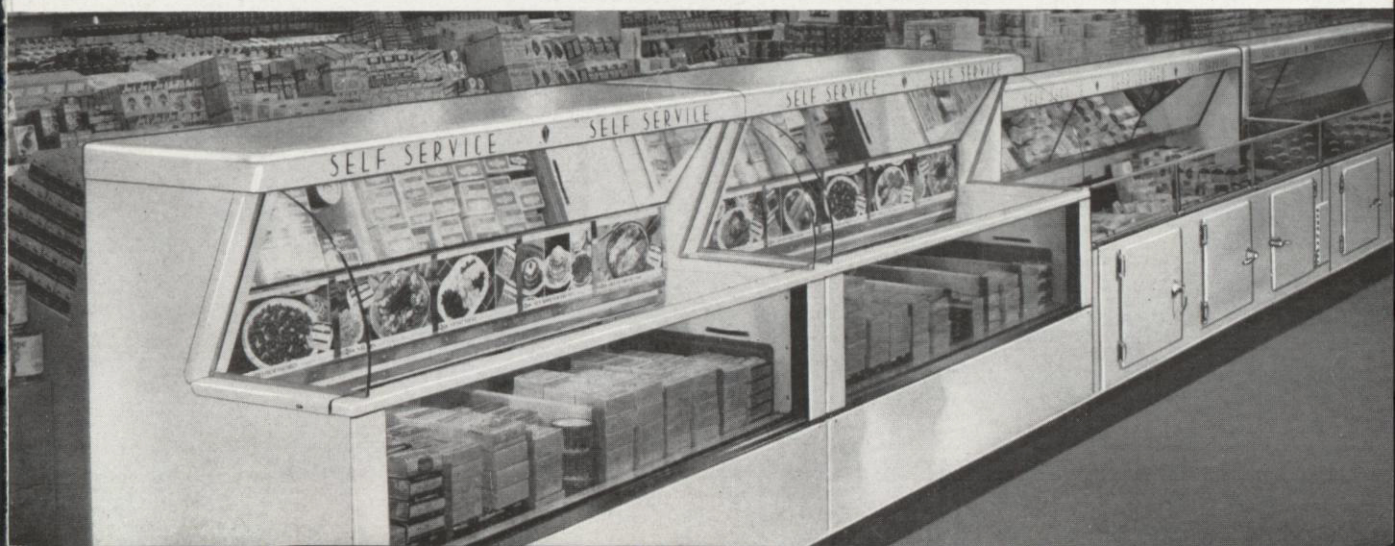
Our results for 1946 reflect the wholehearted cooperation and good will of our hundreds of sources of supply, brokers, commission agents, salesmen, service organizations and landlords, for without their good will and support we could not have accomplished the measure of success that we have.

Respectfully submitted,

February 28, 1947.

Robert J Rasmussen

PRESIDENT



NATIONAL TEA CO.

CONSOLIDATED

DECEMBER 31,

ASSETS

	1946	1945
CURRENT ASSETS:		
Cash	$ 3,472,105	$ 4,434,741
Accounts receivable, less reserves of $37,851 and $41,197, respectively	635,625	401,218
Inventories of merchandise and supplies, at lower of cost or market	15,948,588	9,521,040
Total current assets	$20,056,318	$14,356,999
PREPAID RENTS, INSURANCE, ETC.	$ 165,355	$ 176,894
MORTGAGES AND NOTES RECEIVABLE	$ 84,047	$ 129,603

PLANT AND EQUIPMENT, at cost less the remainder ($481,118) of the net write-down of buildings charged to earned surplus in 1935:

	Gross	Reserves		
Land	$ 1,859,734	$	$ 1,859,734	$ 2,267,699
Buildings	3,778,912	1,909,852	1,869,060	2,047,639
Fixtures and equipment	9,065,404	5,911,558	3,153,846	1,956,332
	$14,704,050	$ 7,821,410		
New warehouse construction in process			895,347	....
Leaseholds and improvements in process of amortization			94,726	100,657
			$ 7,872,713	$ 6,372,327
GOODWILL			$ 1	$ 1
			$28,178,434	$21,035,824

NOTES:

(1) The serial note agreement dated March 27, 1945, or articles of inco

(a) That amounts expended for dividends on, or purchase of, lated since December 31, 1944, plus $85,000.

(b) That except for payment of dividends on preferred stock any dividends on, or purchase of, preferred or con

(c) That the company will provide on April 1 of each year amount equal to 10% of the excess of consolidated or $66,667 whichever is larger; the sinking fund

(2) At December 31, 1946, 8,750 shares of treasury stock were reserved exercisable cumulatively to the maximum of 4,375 24, 1947.

AND SUBSIDIARIES

BALANCE SHEET

1946 AND 1945

LIABILITIES	1946	1945
CURRENT LIABILITIES:		
Notes payable to banks	$ 1,500,000	$ ....
Serial notes and mortgages payable	65,000	70,000
Accounts payable	5,326,131	4,048,677
Accrued liabilities	1,430,224	1,013,332
Provision for Federal income taxes	1,840,404	932,366
Less—U. S. Treasury tax notes	....	*906,771*
Total current liabilities	$10,161,759	$ 5,157,604
SERIAL NOTES, dated April 1, 1945, due 1948 to 1960, interest rate 1½% to 3%	$ 1,400,000	$ 1,450,000
RESERVE FOR SELF-INSURANCE	$ 181,218	$ 167,978
CAPITAL STOCK AND SURPLUS (Note 1):		
Preferred stock— 4¼% cumulative, par value $50, authorized and issued, 37,800 and 40,000 shares, respectively	$ 1,890,000	$ 2,000,000
Common stock, par value $10, authorized 800,000 shares, issued 660,000 shares	6,600,000	6,600,000
Paid-in surplus (increase represents excess of option price over carrying value of treasury stock purchased by officers in 1946)	1,701,075	1,650,000
Earned surplus	6,544,903	4,389,513
	$16,735,978	$14,639,513
Less—Approximate cost of common stock held in treasury (28,600 and 36,100 shares, respectively) (Note 2)	300,521	379,271
	$16,435,457	$14,260,242
	$28,178,434	$21,035,824

poration include, among other things, the following provisions:

any capital stock may not exceed 80% of consolidated net earnings accumu-

to the extent of $170,000, the consolidated net current assets remaining after mon stock must equal $5,500,000 and $5,670,000, respectively.

beginning in 1946, a sinking fund for retirement of preferred stock in an net income for the preceding year over the preferred dividend requirement deposit required on April 1, 1947 is $275,060.

against options to officers for purchase at $16.00 per share. These options are shares on or before February 24, 1947 and 8,750 shares on or before August

NATIONAL TEA CO. AND SUBSIDIARIES

Statement of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31, 1946 AND 1945

	1946	1945
SALES	$157,641,672	$106,868,995
DEDUCT:		
Cost of sales and expenses (including sales and occupational taxes)	$152,438,212	$104,227,946
Provision for depreciation	552,412	491,936
	$152,990,624	$104,719,882
Net profit from operations	$ 4,651,048	$ 2,149,113
OTHER INCOME:		
Profit (*loss*) on disposal of fixed assets	$ 157,795	$ *271,163*
Interest expense	*47,370*	*39,892*
	$ 110,425	$ *311,055*
Net profit before Federal income taxes	$ 4,761,473	$ 1,838,058
PROVISION FOR ESTIMATED FEDERAL INCOME TAXES	1,830,000	1,044,000
Net profit for year	$ 2,931,473	$ 794,058
SPECIAL CREDIT:		
Reduction in Federal income taxes for 1945 attributable to carry-forward of unused excess profits credit of prior years	....	119,000
Total net profit and special credits	$ 2,931,473	$ 913,058

Statement of Consolidated Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1946 AND 1945

	1946	1945
BALANCE AT BEGINNING OF YEAR	$ 4,389,513	$ 4,159,524
ADD—Total net profit and special credits, as above	2,931,473	913,058
	$ 7,320,986	$ 5,072,582
DEDUCT:		
Dividends paid or accrued—		
5½% preferred stock	$	$ 19,678
4¼% preferred stock	83,043	63,750
Common stock ($1.10 and 85c per share, respectively)	693,040	529,440
Commissions and expenses in connection with sale of 4¼% preferred stock, etc.	....	70,201
	$ 776,083	$ 683,069
BALANCE AT END OF YEAR (see Note 1 to balance sheet)	$ 6,544,903	$ 4,389,513

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) and SUBSIDIARIES as of December 31, 1946 and the statements of consolidated income and earned surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1945.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated income and earned surplus present fairly the position of National Tea Co. and subsidiaries at December 31, 1946 and the results of their operations for the year then ended, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois.
February 14, 1947.

OFFICERS AND DIRECTORS

OF NATIONAL TEA CO.

Directors

WILLIAM E. ALBRIGHT

JOHN F. CUNEO

RAYMOND P. FISCHER

JOHN V. FARWELL III

ARTHUR J. HANSEN

HARLEY V. McNAMARA

ROBERT V. RASMUSSEN

WILLIAM E. RUSSELL

ROBERT E. STRAUS

Officers

ROBERT V. RASMUSSEN
President

HARLEY V. McNAMARA
Executive Vice President

WILLIAM E. RUSSELL
Secretary-Treasurer

ARTHUR J. HANSEN
Vice President

CLARENCE E. BEARD
Assistant Treasurer

CHARLES WOODING
Assistant Comptroller

★

Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.

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8 Markets

NATIONAL TEA CO. FOOD STORES

New National trucks will be seen on the highways to handle the increased volume of deliveries to our stores.